



FSCA

Financial Sector
Conduct Authority

eNewsletter

All about the financial consumer

The difference between a legal stokvel and an illegal pyramid or ponzi scheme

| | LEGITIMATE STOKVEL | ILLEGAL PYRAMID SCHEME | ILLEGAL PONZI SCHEME |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DESCRIPTION | <p>A Stokvel is an informal savings pool/club to which members regularly contribute an agreed amount. From this they receive a lump sum payment on rotation.</p> <p>Just as some people exercise more when they have an exercise buddy, others find it easier to save when they do it in a group.</p> | <p>A Pyramid scheme is a scheme where members receive money (administration fees) from and by recruiting other people as members. Sometimes these schemes are disguised as businesses or investment opportunities mostly aimed at selling legitimate financial products or services. Sometimes scam artists trick you into thinking that you are joining a legitimate Stokvel.</p> <p>Pyramid schemes are not real investment vehicles or genuine business opportunities.</p> | <p>A similar kind of fraudulent scheme is the Ponzi scheme, named after Charles Ponzi from the 1920's. Ponzi falsely promised investors that they would make a profit of 50% in three months.</p> |
| CHARACTERISTICS | <p>A member can invite others to join, however is not required to recruit other members into the Stokvel. As part of a Stokvel, members only pay a prescribed amount.</p> | <p>Members are always required to recruit others into the scheme.</p> <p>There is usually a joining or administration fee.</p> | <p>Ponzi schemes are based on fraudulent investment management services. Members contribute money to the "portfolio manager" who promises them a high return. When members want their investment paid out, this is done using the incoming funds contributed by participants who join at a later stage.</p> |
| PERIOD/DURATION | <p>Can be short or long term. No interest earned. What you put in is what you get out. The only risk is that the person you entrust your money to, runs away with everyone's money.</p> <p>However, most Stokvel members know each other and have a genuine and enduring relationship.</p> | <p>You are promised huge returns within a short period of time.</p> | <p>You are promised huge returns within a short period of time.</p> |
| LOCATION OF MONEY AND RATE OF RETURN | <p>A member knows where their money is kept and when and how much they will be paid out.</p> <p>The member benefit is well specified in terms of quantum and timing.</p> | <p>Money simply exchanges hands with no real economic activity or products attached to it.</p> <p>Where products are sold, they are mostly a smoke screen to hide the pyramid scheme.</p> <p>Significant returns are derived from the recruitment of people and not from the actual sale of the product.</p> | <p>The person organising this type of fraud manages the entire operation. They merely transfer funds from one client to another. There is no real investment product.</p> <p>Ponzi schemes are also sometimes run via WhatsApp by scamsters who use a method of fraud known as "identity hijacking".</p> <p>Identity hijacking is when a well known person's identity is used fraudulently by criminals, posing as well-known financial institutions, to extract money from individuals.</p> |



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